

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE  
ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE  
LESEDI LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying annual financial statements of the Lesedi Local Municipality which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 22.

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by National Treasury as set out in note 1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities

shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by the Lesedi Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1.

#### **Opinion**

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Lesedi Local Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the MFMA.

#### **Emphasis of matters**

I draw attention to the following matters:

#### **Basis of accounting**

11. The National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of Government Notice 522 of 2007 issued in Government Gazette No. 30013 of 29 June 2007. The extent of the exemptions is set out in accounting policy note 1.
12. The municipality converted from the standards of Institute of Municipal Treasurers and Accountants in its Code of Practice for Local Government Accounting (19992) to Modified GRAP, GAMAP & GAAP in the current year. As disclosed in note 18 of the financial statements, certain account balances were restated retrospectively to the extent possible.

#### **Highlighting a matter affecting the financial statements**

13. As disclosed in note 25 of the financial statements, the significance of the provision for bad debts as raised in the financial statements highlights some uncertainty as to the future viability of the municipality and its future cash flows.

#### **Unaudited supplementary schedules**

14. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 Presentation of Financial Statements. The supplementary budget information set out on page xx does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.
15. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

## **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### **Non-compliance with applicable legislation**

16. The municipality is currently using a waste disposal site without a permit, as required by section 20(1) of Environment Conservation Act, 1989 (Act No.73 of 1989).

## **OTHER REPORTING RESPONSIBILITIES**

### **Reporting on performance information**

17. I have audited the performance information as set out on pages xx to xx.

### **Responsibility of the accounting officer**

18. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **Responsibility of the Auditor-General**

19. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the MSA.
20. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

### **Audit findings**

#### **Non-compliance with regulatory requirements**

22. No quarterly performance reports were submitted to the audit/performance committee for the year under review as required by the Municipal Systems Act, 2000 (Act No. 32 of 2000).

## **APPRECIATION**

23. The assistance rendered by the staff of the Lesedi Local Municipality during the audit is sincerely appreciated.

*(Signature - General)*

Johannesburg

29 January 2008

*(Signature)*

5. Fifteen (15) copies of the report must be submitted immediately after printing to the following address:

Office of the Auditor-General  
Att: Parliamentary Manager  
Parkridge Office Park  
61 Empire Road  
**PARKTOWN**  
Block E  
1<sup>st</sup> Floor

6. Please notify the Business Executive of Gauteng well in advance of the date on which the audit report(s), or the annual report containing these audit report(s), will be tabled at the municipality.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.
8. Kindly acknowledge receipt of this letter.

Yours faithfully



Business Executive: Gauteng

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